

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name OSCODA AREA SCHOOLS	County IOSCO & ALCONA
Audit Date 06/30/2004	Opinion Date 07/30/2004	Date Accountant Report Submitted to State: 11/09/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

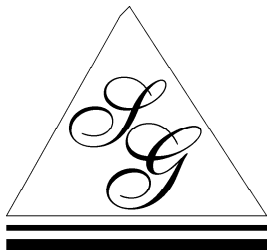
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.08.12 09:29:29 -0500 Reason: I am approving this document	



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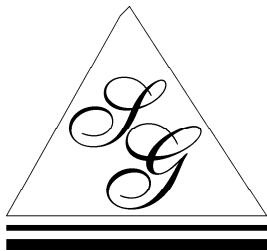
Herman A Bertuleit, CPA

OSCODA AREA SCHOOLS
IOSCO AND ALCONA COUNTIES, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2004

AUDITORS' REPORT

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July 30, 2004

Independent Auditors' Report

Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools, Iosco and Alcona Counties, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2004, on our consideration of Oscoda Area Schools', Iosco and Alcona Counties, Michigan, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oscoda Area Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.



Oscoda Area Schools

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OSCODA AREA SCHOOLS

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

The following section presents the administration's discussion and analysis of Oscoda Area Schools' financial performance during the year ended June 30, 2004. Please read it in conjunction with the financial statements and other supplemental information included in the Audit. This Analysis is a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34).

Generally accepted accounting principles (GAAP), according to GASB 34, requires the reporting of two types of financial statements: Fund Financial Statements and District-Wide Financial Statements.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Fund financial statements report the School District's operations in more detail than the district-wide financial statements. Fund statements are provided for the General Fund, Capital Projects Bond and Sinking Funds, Debt Service Funds, Athletic and Food Service Funds.

District-Wide Financial Statements

The district-wide financial statements are reported using the full accrual basis of accounting. With this method all of the District's assets and liabilities, and all of the current year revenues and expenditures, are reported regardless of when cash is received or paid. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets.

Summary of Net Assets :

The comparative analysis for the net assets at June 30, 2004 and June 30, 2003 follows :

**Net Assets Summary
District -Wide Activities**

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current Assets	\$ 7,907,319	\$ 12,214,367
Capital Assets & Bond Cost	16,644,238	10,719,901
Total Assets	24,551,557	22,934,268
Current Liabilities	4,614,854	2,564,893
Long-Term Liabilities	14,478,611	15,248,114
Total Liabilities	19,093,465	17,813,007
Net Assets		
Invested in Capital Assets, Net of Debt	3,120,362	(3,460,662)
Restricted	1,540,438	7,921,324
Unrestricted	797,292	660,599
Total Net Assets	\$ 5,458,092	\$ 5,121,261

Analysis of Financial Position:

- During the fiscal year ended June 30, 2004, the District's net assets increased by \$336,831.
- Both assets and current liabilities are higher than the prior year, reflecting the \$2.5 million State Aid Note outstanding at year end. The previous year the SAN had been repaid by year end.
- The increase in net assets reflects the reduction in long-term liabilities.
- The increase in capital assets, net of debt, is due to the completion of the Bond and Sinking Fund projects during the year.

Some of the significant factors affecting net assets during the year are discussed below. Exhibit F found on page 14 of the Audit includes a reconciliation of the change in fund balance and the change in net assets.

1. Change in Fund Balance

The change in fund balance for the districts' governmental funds was a decrease of \$6.4 million. This reduction was mainly the result of a decrease in the Capital Projects Fund for the 2001 Bond, (\$6.1) million, and Sinking Fund, (\$0.3) million. Note that the reduction in fund balance for the Capital Project funds reflects expenditures for capital assets *as cash was disbursed*. As discussed below and explained on Exhibit F of the Audit, the District-wide Statement of Net Assets will record these costs *over the useful life of the assets*.

The General Fund balance increased by \$25,869. The change in Food Service, Athletics and Debt Retirement Funds is shown on Exhibit K and totals (\$30,353).

2. Capital Outlay Acquisitions

Actual capital outlay acquisitions for the fiscal year were \$6,484,813, primarily from the Sinking Fund and proceeds of the 2001 Building & Site Bonds. In the Statement of Activities the cost of capitalized expenses is allocated over the estimated life of the asset. Exhibit F shows this as a positive adjustment.

3. Depreciation

GASB 34 requires school districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets. For the fiscal year ended June 30, 2004 the increase in depreciation was \$556,800.

4. Repayment of Principal

The repayment of debt decreases the District's long-term obligations and increases net assets. The amount of bus note and debt principal repayment during the fiscal year was \$646,356.

Results of Operations:

For the fiscal years ended June 30, 2004 and June 30, 2003, the District-wide results of operations were:

General Revenue:	<u>2004</u>	<u>2003</u>
Property Taxes levied for General Operations	\$ 4,744,286	\$ 4,596,793
State of Michigan Aid – Unrestricted	6,829,404	7,550,690
Property Taxes levied for Debt Service, Sinking Fund	1,315,283	1,283,413
Other Federal, State and Local	316,922	950,953
Total General Revenue	13,205,895	14,351,849
 Program Revenue:		
Charges for Services – Local	475,433	599,312
Operating Grants and Contributions	2,840,508	3,004,128
Capital Grants	37,108	435,594
Total Program Revenues	3,353,049	3,999,034
Total Revenues	16,558,944	18,350,883
 Expenses:		
Instruction	8,508,239	8,753,580
Support Services	5,277,723	5,697,760
Community Services	56,202	64,034
Food Services	751,652	798,551
Athletics	216,289	313,317
Interest on long-term debt	662,745	798,488
Depreciation (Unallocated)	556,800	320,626
Other	192,463	34,488
Total Expenses	16,222,113	16,780,844
 Increase in Net Assets	\$ 336,831	\$ 1,570,039

1. Property Taxes

The District levies 18 mills of property taxes on Non-Homestead Property. This revenue is one component of the total per pupil foundation allowance set by the State of Michigan. As noted in the Results of Operations, the property taxes generated General Fund revenue of \$4.7 million during the fiscal year ended June 30, 2004.

The District levied .782 mills for the Sinking Fund and 2 mills for debt service on the 2001 Building and Site Bond. The Sinking Fund revenue generated was \$369,727 and was included in a capital projects fund. As reflected on Exhibit K, page 34 of the Audit, \$217,004 was transferred from the Sinking Fund to pay debt service on the 1999 Building & Site Bonds.

2. State of Michigan Aid, Unrestricted

The State of Michigan unrestricted aid is determined by the following variables: the foundation allowance, student enrollment and the District's non-homestead levy. The non-homestead taxes are deducted from the calculated total foundation amount to determine the amount paid by the State of Michigan. As noted in the Results of Operations, Unrestricted State Aid was \$6.8 million and Property Taxes for General Operations were \$4.7 million. The portion of the foundation allowance payment that is restricted for special education was \$.4 million and is included under Program Revenues.

- a. **State of Michigan State Aid Act- per pupil foundation allowance.** The State of Michigan initially set the foundation allowance at \$6,700 per pupil. State Aid was again reduced in fiscal 2004 due to insufficient state revenues. The state-wide prorated reduction of funds reduced State Aid by \$74 per pupil, or \$132,947, for Oscoda Area Schools.
- b. **Student Enrollment**-The membership average is blended at 80% of the current fiscal year fall count and 20% of the prior year winter count. The average membership was 1,797 for the fiscal year ended June 30, 2004, a reduction of 96 from the average membership of 1,893 for the previous fiscal year. The reduction in pupils reduced revenue by more than \$636 thousand.

Total Revenues

The total revenues of the District were \$16.6 million, a reduction of \$1.8 million from the previous year. This change was due to the reduced foundation noted above, (\$.6) million, reduced grants including the capital grants for window infill and technology equipment, (\$.6) million, and reduced investment income from the 2001 Bond.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$3.4 million or 20% of the total. As noted on Exhibit B, page 10 of this report, general purpose revenues including unrestricted state aid and property taxes, provided 80% of the total.

General Fund Budget and Actual Results

The Uniform Budgeting and Accounting Act of the State of Michigan requires that the Board of Education approve the original budget for the fiscal year prior to July 1, before student enrollment counts, approved federal grant awards and other information is known. Therefore, it is expected that there will be changes between the initial budget and subsequent amendments, as more information becomes available. The budget was amended in November, March and in June. Exhibit I on page 32 of the Audit summarizes the comparative budget and actual results.

General Fund Revenue – Actual vs. Budget

Total General Fund revenue was \$9 thousand less than budgeted, however the net effect on the fund balance from revenue changes was positive. The timing of expenditures for restricted Federal Grants resulted in federal sources of revenue \$65 thousand less than budgeted. This grant revenue is strictly based upon expenditures. Because this revenue variance was matched by an expense variance, it did not change the fund balance. The net revenue change excluding federal sources was \$56 thousand. This change increased the fund balance and was due primarily to the receipt of state revenue for vocational education programs.

General Fund Expense vs. Budget

Total expenses were \$382 thousand less than budgeted, or approximately \$317 thousand less, excluding the amount noted above for restricted federal grants. This \$317 thousand was the major component of the positive fund balance variance of \$379 thousand.

The reduced expenditures were consistent with the District's plan to increase funds for the next fiscal year by limiting discretionary expenditures in fiscal 2004. Support Service expenses below budget for Operation of Plant, Transportation, Administrative & other services contributed 72% of the total variance.

General Fund:	Revenue	Expense
Original Budget	\$14,386,868	\$14,398,334
Final Budget	14,273,022	14,497,404
Actual	14,263,811	14,115,176
Variance	\$ (9,211)	\$ (382,228)
% of Budget	0%	2.7%

Capital Asset and Debt Administration

Capital Assets

At the end of the fiscal year 2004, the District had \$23.5million invested in land and buildings, furniture and equipment, vehicles and buses, measured at historical cost. Of this amount, \$7.0 million has been depreciated. Net book value was \$16.5million at the end of the fiscal year 2004, an increase of nearly \$6 million from the previous year. Major additions to capital assets were from the 2001 Bond Project and the Sinking Fund. The capital asset information is detailed on Exhibit H, Note 4, page 25 of Exhibit H of the audit.

Long-Term Debt

At June 30, 2004, the District had \$13.6 million in principal outstanding on long-term bonds. Additional information on the District's long-term debt can be found on Exhibit H, Note 6, starting on page 26 of the audit.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Oscoda Area Schools
Business Office
3550 River Road
Oscoda, MI 48750
(989) 739-2033

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 2)	\$ 6,081,379
Receivables:	
State of Michigan (Note 3)	1,623,429
Other	1,053
Due from local units	38,417
Inventory: (Note 1)	
Supplies	9,990
Building trades home and lots	153,051
Bond issuance costs - net (Note 1)	139,103
Capital assets - net (Note 4)	<u>16,505,135</u>
 Total Assets	 <u>24,551,557</u>
<u>Liabilities</u>	
Accounts payable	589,023
Salaries payable	852,299
Employee benefits payable	390,839
Retirement incentive payable	22,357
Interest payable	128,949
State aid anticipation note payable (Note 5)	2,500,000
Deferred revenue (Note 9)	131,387
Long-term liabilities:	
Due within one year (Note 6)	412,060
Due in more than one year	<u>14,066,551</u>
 Total Liabilities	 <u>19,093,465</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	3,120,362
Restricted for:	
Food service	126,382
Debt retirement	323,822
Capital projects	1,090,234
Unrestricted	<u>797,292</u>
 Total Net Assets	 <u>\$ 5,458,092</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

		Program Revenues			Net (Expenses) Revenue and Change in Net Assets
		Charges for	Operating	Capital	Government
	Expenses	Services	Grants and Contributions	Grants	Type Activities
Instruction	\$ 8,508,239	\$ 44,321	\$ 1,722,887	\$ 0	\$ (6,741,031)
Supporting services	5,277,723	113,430	564,730	37,108	(4,562,455)
Community services	56,202	34,968	16,146	0	(5,088)
Food services	751,652	237,030	529,889	0	15,267
Athletics	216,289	45,684	6,856	0	(163,749)
Interest on long-term debt	662,745	0	0	0	(662,745)
Other expenses	192,463	0	0	0	(192,463)
Unallocated depreciation	556,800	0	0	0	(556,800)
Total	<u>\$ 16,222,113</u>	<u>\$ 475,433</u>	<u>\$ 2,840,508</u>	<u>\$ 37,108</u>	<u>(12,869,064)</u>
General purpose revenue:					
Current property taxes					6,059,569
State school aid - unrestricted					6,829,404
Investment earnings					133,319
Miscellaneous					<u>183,603</u>
Total general purpose revenue					<u>13,205,895</u>
Change in net assets					336,831
Net assets - beginning					<u>5,121,261</u>
Net assets - ending					<u>\$ 5,458,092</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
June 30, 2004

	<u>General Fund</u>	<u>2001 Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 2)	\$ 4,028,720	\$ 1,566,717	\$ 485,942	\$ 6,081,379
Receivables:				
State of Michigan (Note 3)	1,617,854	0	5,575	1,623,429
Other	0	726	327	1,053
Due from local units	38,417	0	0	38,417
Due from other funds (Note 8)	210	0	5,879	6,089
Inventory: (Note 1)				
Supplies	4,770	0	5,220	9,990
Building trades home and lots	153,051	0	0	153,051
Total Assets	<u>\$ 5,843,022</u>	<u>\$ 1,567,443</u>	<u>\$ 502,943</u>	<u>\$ 7,913,408</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts payable	\$ 88,455	\$ 492,376	\$ 8,192	\$ 589,023
Salaries payable	847,426	0	4,873	852,299
Employee benefits payable	389,834	0	1,005	390,839
Interest payable	22,174	0	0	22,174
Due to other funds (Note 8)	5,879	210	0	6,089
Tax anticipation note payable (Note 5)	2,500,000	0	0	2,500,000
Deferred revenue (Note 9)	129,332	0	2,055	131,387
Total liabilities	<u>3,983,100</u>	<u>492,586</u>	<u>16,125</u>	<u>4,491,811</u>
<u>Fund Equity</u>				
Fund balances:				
Reserved:				
Food service	0	0	126,382	126,382
Facilities additions and improvements	0	1,074,857	15,377	1,090,234
Unreserved, reported in:				
General Fund	1,859,922	0	0	1,859,922
Special revenue fund	0	0	21,237	21,237
Debt retirement funds	0	0	323,822	323,822
Total fund equity	<u>1,859,922</u>	<u>1,074,857</u>	<u>486,818</u>	<u>3,421,597</u>
Total Liabilities and Fund Equity	<u>\$ 5,843,022</u>	<u>\$ 1,567,443</u>	<u>\$ 502,943</u>	<u>\$ 7,913,408</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2004

Total governmental fund balances:		\$ 3,421,597
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$ 23,483,870	
Capital asset accumulated depreciation	<u>(6,978,735)</u>	
		16,505,135
Accrued interest on long-term debt		(106,775)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Bonds payable (net of unamortized discount)	(13,403,389)	
Capital lease payable	(29,773)	
Compensated absences payable	(906,346)	
Retirement incentive payable	<u>(22,357)</u>	
Total long-term liabilities		<u>(14,361,865)</u>
Total net assets - governmental activities		<u>\$ 5,458,092</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	General Fund	2001 Capital Project Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>				
Local sources:				
Current property taxes	\$ 4,744,286	\$ 0	\$ 1,315,283	\$ 6,059,569
Lunch sales	0	0	237,030	237,030
Gate receipts	0	0	38,999	38,999
Tuition	33,990	0	0	33,990
Medicaid fee for service	65,021	0	0	65,021
Interest on investments	14,183	114,316	4,820	133,319
Rents	2,254	0	0	2,254
Building trades home	122,102	0	0	122,102
Other	110,475	0	16,429	126,904
State sources	8,071,992	0	59,176	8,131,168
Federal sources	1,099,508	36,442	470,713	1,606,663
Total revenue	<u>14,263,811</u>	<u>150,758</u>	<u>2,142,450</u>	<u>16,557,019</u>
<u>Expenditures</u>				
Current:				
Instruction	8,582,562	0	0	8,582,562
Supporting services	5,454,546	0	0	5,454,546
Community services	56,202	0	0	56,202
Food services	0	0	746,986	746,986
Athletics	0	0	216,289	216,289
Debt service:				
Principal retirement	0	0	520,000	520,000
Interest and fiscal charges	0	0	659,480	659,480
Capital outlay	21,866	6,027,091	435,856	6,484,813
Other	0	191,766	147	191,913
Total expenditures	<u>14,115,176</u>	<u>6,218,857</u>	<u>2,578,758</u>	<u>22,912,791</u>
Excess of revenue over (under) expenditures	<u>148,635</u>	<u>(6,068,099)</u>	<u>(436,308)</u>	<u>(6,355,772)</u>
<u>Other Financing Sources (Uses)</u>				
Sale of fixed assets	0	0	1,925	1,925
Operating transfers in	40,000	0	379,770	419,770
Operating transfers out	(162,766)	0	(257,004)	(419,770)
Total other financing sources (uses)	<u>(122,766)</u>	<u>0</u>	<u>124,691</u>	<u>1,925</u>
Excess of revenue and other sources over (under) expenditures and other uses	25,869	(6,068,099)	(311,617)	(6,353,847)
Fund balances - beginning of year	<u>1,834,053</u>	<u>7,142,956</u>	<u>798,435</u>	<u>9,775,444</u>
Fund balances - end of year	<u>\$ 1,859,922</u>	<u>\$ 1,074,857</u>	<u>\$ 486,818</u>	<u>\$ 3,421,597</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Total net change in fund balances - governmental funds	\$ (6,353,847)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (556,800)	
Capital outlays reported in the governmental funds	<u>6,484,813</u>	
Net difference		5,928,013

Lease payments on a capital lease are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the principal repayment reported as expenditures in governmental funds.	6,656
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Repayment of bus notes principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	126,356
--	---------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	520,000
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Net change in accrued interest payable:

Accrued interest on long-term liabilities June 30, 2003	109,822	
Accrued interest on long-term liabilities June 30, 2004	<u>(106,775)</u>	
		3,047

Amortization of deferred bond costs	(3,676)
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Net change in accrued compensated absences:

Accrued compensated absences June 30, 2003	1,022,837	
Accrued compensated absences June 30, 2004	<u>(906,346)</u>	
		116,491

Net change in retirement incentive payable:

Retirement incentive payable June 30, 2003	16,148	
Retirement incentive payable June 30, 2004	<u>(22,357)</u>	
		<u>(6,209)</u>

Change in net assets of governmental activities	\$ <u>336,831</u>
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The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2004

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 87,789
Investments	<u>5,835</u>
Total Assets	<u>\$ 93,624</u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 93,624</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Oscoda Area Schools conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Oscoda Area Schools (School District) is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Oscoda Area Schools Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by Oscoda Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund – The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

2001 Capital Projects Fund – The Fund is used to account for the acquisition or construction of major capital facilities financed by tax levy and General Obligation Bonds.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2004, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Inventory – Supplies

Inventory on government-wide financial statements are stated at cost and are expensed when used.

Inventory on fund financial statements are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. Inventory - Building Trades Home and Lots

Inventory represents the cost of property purchased for future building sites and partial construction costs.

I. Deferred Charges

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

L. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. The amount of accumulated sick and vacation pay liability for Oscoda Area Schools was \$906,346, of which \$54,742 is current.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

O. Property Taxes

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

P. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2003.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2003 - August, 2004. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

Q. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2004.

T. Economic Dependency

The School District received approximately 58% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

U. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

V. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Projects Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Oscoda Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 6,081,379	\$ 87,789	\$ 6,169,168
Investments	<u>0</u>	<u>5,835</u>	<u>5,835</u>
	<u>\$ 6,081,379</u>	<u>\$ 93,624</u>	<u>\$ 6,175,003</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 167,843
Investments in Securities and Similar Vehicles	6,007,127
Petty Cash and Cash on Hand	<u>33</u>
Total	<u>\$ 6,175,003</u>

Deposits:

Deposits are carried at cost. Deposits of the School District are held at various banks in the name of the School District. At June 30, 2004, the carrying amounts of the School District's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 147,401	\$ 106,370
Uninsured – uncollateralized	<u>20,442</u>	<u>0</u>
Total primary government	<u>\$ 167,843</u>	<u>\$ 106,370</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments :

The School District is authorized through Board resolution and by the State of Michigan Public Act 451 of 1976 as amended to invest in the following:

Bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above, and investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

Investments are categorized into these three categories of credit risk.

1. Insured or registered with securities held by the entity or by its agent in the entity's name.
2. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent in the entity's name.
3. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent but not in the entity's name.

At June 30, 2004, the School District's investments consisted of municipal investment pools, which are not required to be categorized with a carrying amount and market value of \$6,007,127.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>Governmental Activities</u>	<u>Amount</u>
State Aid	\$ 1,450,849
Federal Grants	<u>172,580</u>
Total Governmental Activities	<u>\$ 1,623,429</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<u>Governmental Activities</u>				
Land	\$ 0	\$ 94,533	\$ 0	\$ 94,533
Buildings and improvements	6,979,426	11,878,763	(155,010)	18,703,179
Furniture, fixtures and equipment	923,139	1,023,683	(25,845)	1,920,977
Vehicles and buses	2,035,809	0	0	2,035,809
Construction in progress	<u>7,241,538</u>	<u>0</u>	<u>(6,512,166)</u>	<u>729,372</u>
Totals at historical cost	<u>17,179,912</u>	<u>12,996,979</u>	<u>(6,693,021)</u>	<u>23,483,870</u>
Less: Accumulated Depreciation				
Buildings and improvements	(4,765,041)	(273,160)	155,010	(4,883,191)
Furniture, fixtures and equipment	(471,476)	(161,673)	25,845	(607,304)
Vehicles and buses	<u>(1,366,273)</u>	<u>(121,967)</u>	<u>0</u>	<u>(1,488,240)</u>
Total accumulated depreciation	<u>(6,602,790)</u>	<u>(556,800)</u>	<u>180,855</u>	<u>(6,978,735)</u>
Governmental Activities Capital Assets-Net	<u>\$ 10,577,122</u>	<u>\$ 12,440,179</u>	<u>\$ (6,512,166)</u>	<u>\$ 16,505,135</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5 - SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The following is a summary of the short-term financing:

	July 1, 2003	Increases	Decreases	June 30, 2004
State Aid Anticipation Note	<u>\$ 0</u>	<u>\$ 2,500,000</u>	<u>\$ 0</u>	<u>\$ 2,500,000</u>

The State Aid Anticipation Note was acquired to help cover school operations for fiscal year 2004. The note is dated August 20, 2003, bears interest at 1.03% and will be due for payment on August 20, 2004.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 6 - LONG-TERM LIABILITIES

<u>A. Bonds Payable</u>	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest on Note</u>	<u>Total Obligation</u>
School Improvement Bonds:				
The bonds dated November 24, 1998 which bear interest at 4.76% to 8% are due serially each May 15 through 2013	1998	\$ 187,492	\$ 54,018	\$ 241,510
2001 School Building and Site Bonds:				
The bonds dated November 15, 2001 which bear interest at 2.4% to 5.625% are due serially each May 1 through 2026	2002	<u>13,355,000</u>	<u>9,056,970</u>	<u>22,411,970</u>
		<u>\$ 13,542,492</u>	<u>\$ 9,110,988</u>	<u>\$ 22,653,480</u>

B. Capital Lease

Dolphin Capital Copier Lease:

The lease dated January 28, 2003 is due in monthly payments of \$820 over a period of 60 months

2003	<u>\$ 29,773</u>	<u>\$ 5,487</u>	<u>\$ 35,260</u>
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The annual principal and interest requirements for long-term debt for the years after June 30, 2004 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 357,318	\$ 643,174	\$ 1,000,492
2006	407,251	638,350	1,045,601
2007	418,725	624,360	1,043,085
2008	431,152	609,209	1,040,361
2009	494,336	616,761	1,111,097
2010-2014	2,478,483	2,687,183	5,165,666
2015-2019	3,065,000	2,042,738	5,107,738
2020-2024	4,015,000	1,110,950	5,125,950
2025-2026	<u>1,905,000</u>	<u>143,750</u>	<u>2,048,750</u>
Total	<u>\$ 13,572,265</u>	<u>\$ 9,116,475</u>	<u>\$ 22,688,740</u>

The annual State of Michigan appropriation, through the State Aid payments, is the only revenue source for making the annual debt service payment on the school improvement bonds. If the legislature fails to appropriate the funds, the District is under no obligation for payment.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

C. Compensated Absences

The School District has an employee benefit plan that allows employees to accumulate an unlimited amount of sick and vacation pay days. Compensated absences are recorded using the vesting method in accordance with Governmental Accounting Standards Board Statement 16. The amount of accumulated sick and vacation pay liability for Oscoda Area Schools was \$906,346 at June 30, 2004, of which \$54,742 was the estimated current portion.

D. Changes in Long-Term Liabilities

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amount Due In One Year
<u>Governmental Activities</u>					
Notes payable	\$ 126,356	\$ 0	\$ 126,356	\$ 0	\$ 0
Bonds payable	14,062,492	0	520,000	13,542,492	350,000
Capital leases	36,429	0	6,656	29,773	7,318
Compensated absences	<u>1,022,837</u>	<u>0</u>	<u>116,491*</u>	<u>906,346</u>	<u>54,742</u>
Total long-term liabilities	<u>\$ 15,248,114</u>	<u>\$ 0</u>	<u>\$ 769,503</u>	<u>\$ 14,478,611</u>	<u>\$ 412,060</u>

The interest expenditures on long-term obligations for the year were \$662,745.

*Represents net of additions and retirements for the year.

NOTE 7 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General Fund	\$ 40,000	Food Service Fund	\$ 40,000
Food Service	794	General Fund	794
1999 School Bond Debt			
Retirement Fund	217,004	Sinking Fund	217,004
Athletic Fund	<u>161,972</u>	General Fund	<u>161,972</u>
Total	<u>\$ 419,770</u>	Total	<u>\$ 419,770</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables for individual funds as of June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 210	2001 Capital Project Fund	\$ 210
Athletic Fund	<u>5,879</u>	General Fund	<u>5,879</u>
Total	<u>\$ 6,089</u>		<u>\$ 6,089</u>

NOTE 9 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
Gifted Program Grant	\$ 889
Literacy Achievement Program	94,216
Michigan School Readiness	23,100
Insurance Claim	11,127
Food Service Fund:	
Meal Cards	<u>2,055</u>
Total	<u>\$ 131,387</u>

NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the School District incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Special Revenue Funds:			
Athletics	\$ 215,736	\$ 216,289	\$ 553

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 11 - RETIREMENT PLANS

Defined Benefit Plan

The School District contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2003, employer contributions were 12.99% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. The contribution requirements of plan members and Oscoda Area School District are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2004, 2003 and 2002 were \$1,089,430, \$1,124,232 and \$1,131,070, respectively, equal to the required contributions for each year.

The MPERS also provides for death and disability benefits which are established by state statute. Under the MPERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program they must continue until completion of the purchase of the service credit or termination of employment from Oscoda Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPERS. Employee contributions to the TDP program totaled \$97,626 for the year ended June 30, 2004.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 11 - RETIREMENT PLANS (CONTINUED)

Deferred Compensation Plans (Continued)

The District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$269,823 for the year ended June 30, 2004. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 12 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. No liabilities were due as of June 30, 2004.

NOTE 13 - BONDED CONSTRUCTION FUNDS

The 2001 Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

Sinking Funds - The 1999 Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE 14 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 15 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 16 - CONTINGENCIES AND COMMITMENTS

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2004, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local sources:				
Current property taxes	\$ 4,783,062	\$ 4,736,931	\$ 4,744,286	\$ 7,355
Tuition	45,000	32,000	33,990	1,990
Medicaid fee for service	53,000	64,592	65,021	429
Interest on investments	50,000	14,000	14,183	183
Rents	12,000	2,254	2,254	0
Building trades home	127,538	122,102	122,102	0
Other	103,000	104,980	110,475	5,495
State sources	8,117,908	8,032,107	8,071,992	39,885
Federal sources	<u>1,095,360</u>	<u>1,164,056</u>	<u>1,099,508</u>	<u>(64,548)</u>
Total revenue	<u>14,386,868</u>	<u>14,273,022</u>	<u>14,263,811</u>	<u>(9,211)</u>
<u>Expenditures</u>				
Current:				
Instruction	8,421,510	8,649,567	8,582,562	67,005
Supporting services	5,888,103	5,727,918	5,454,546	273,372
Community services	78,821	88,429	56,202	32,227
Capital outlay	<u>9,900</u>	<u>31,490</u>	<u>21,866</u>	<u>9,624</u>
Total expenditures	<u>14,398,334</u>	<u>14,497,404</u>	<u>14,115,176</u>	<u>382,228</u>
Excess of revenue over (under) expenditures	<u>(11,466)</u>	<u>(224,382)</u>	<u>148,635</u>	<u>373,017</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	40,000	40,000	40,000	0
Operating transfers out	<u>(168,246)</u>	<u>(168,794)</u>	<u>(162,766)</u>	<u>6,028</u>
Total other financing sources (uses)	<u>(128,246)</u>	<u>(128,794)</u>	<u>(122,766)</u>	<u>6,028</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(139,712)</u>	<u>(353,176)</u>	<u>25,869</u>	<u>379,045</u>
Fund balances - beginning of year	<u>1,834,053</u>	<u>1,834,053</u>	<u>1,834,053</u>	<u>0</u>
Fund balances - end of year	<u>\$ 1,694,341</u>	<u>\$ 1,480,877</u>	<u>\$ 1,859,922</u>	<u>\$ 379,045</u>

OTHER INFORMATION

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
June 30, 2004

	Food Service Fund	Athletic Fund	2001 School Bond Debt Retirement Fund	1999 School Bond Debt Retirement Fund	Sinking Fund	Total Other Governmental Funds
<u>ASSETS</u>						
Cash and cash equivalents	\$ 125,507	\$ 21,236	\$ 323,822	\$ 0	\$ 15,377	\$ 485,942
Receivables:						
State of Michigan	5,575	0	0	0	0	5,575
Other	327	0	0	0	0	327
Due from other funds	0	5,879	0	0	0	5,879
Inventory:						
Supplies	<u>5,220</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,220</u>
Total Assets	<u>\$ 136,629</u>	<u>\$ 27,115</u>	<u>\$ 323,822</u>	<u>\$ 0</u>	<u>\$ 15,377</u>	<u>\$ 502,943</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Liabilities</u>						
Accounts payable	\$ 8,192	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,192
Salaries payable	0	4,873	0	0	0	4,873
Employee benefits payable	0	1,005	0	0	0	1,005
Deferred revenue	<u>2,055</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,055</u>
Total liabilities	<u>10,247</u>	<u>5,878</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,125</u>
<u>Fund Equity</u>						
Fund balances:						
Reserved:						
Food service	126,382	0	0	0	0	126,382
Facilities additions and improvements	0	0	0	0	15,377	15,377
Unreserved, reported in:						
Special revenue fund	0	21,237	0	0	0	21,237
Debt retirement funds	<u>0</u>	<u>0</u>	<u>323,822</u>	<u>0</u>	<u>0</u>	<u>323,822</u>
Total fund equity	<u>126,382</u>	<u>21,237</u>	<u>323,822</u>	<u>0</u>	<u>15,377</u>	<u>486,818</u>
Total Liabilities and Fund Equity	<u>\$ 136,629</u>	<u>\$ 27,115</u>	<u>\$ 323,822</u>	<u>\$ 0</u>	<u>\$ 15,377</u>	<u>\$ 502,943</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Food Service Fund	Athletic Fund	2001 School Bond Debt Retirement Fund	1999 School Bond Debt Retirement Fund	Sinking Fund	Total Other Governmental Funds
<u>Revenue</u>						
Local sources:						
Current property taxes	\$ 0	\$ 0	\$ 945,556	\$ 0	\$ 369,727	\$ 1,315,283
Lunch sales	237,030	0	0	0	0	237,030
Gate receipts	0	38,999	0	0	0	38,999
Interest on investments	606	59	2,226	14	1,915	4,820
Other	0	16,429	0	0	0	16,429
State sources	59,176	0	0	0	0	59,176
Federal sources	470,713	0	0	0	0	470,713
Total revenue	<u>767,525</u>	<u>55,487</u>	<u>947,782</u>	<u>14</u>	<u>371,642</u>	<u>2,142,450</u>
<u>Expenditures</u>						
Current:						
Food services	746,986	0	0	0	0	746,986
Athletics	0	216,289	0	0	0	216,289
Debt service:						
Principal retirement	0	0	305,000	215,000	0	520,000
Interest and fiscal charges	0	0	649,290	10,190	0	659,480
Capital outlay	0	0	0	0	435,856	435,856
Other	0	0	101	0	46	147
Total expenditures	<u>746,986</u>	<u>216,289</u>	<u>954,391</u>	<u>225,190</u>	<u>435,902</u>	<u>2,578,758</u>
Excess of revenue over (under) expenditures	<u>20,539</u>	<u>(160,802)</u>	<u>(6,609)</u>	<u>(225,176)</u>	<u>(64,260)</u>	<u>(436,308)</u>
<u>Other Financing Sources (Uses)</u>						
Sale of fixed assets	1,925	0	0	0	0	1,925
Operating transfers in	794	161,972	0	217,004	0	379,770
Operating transfers out	(40,000)	0	0	0	(217,004)	(257,004)
Total other financing sources (uses)	<u>(37,281)</u>	<u>161,972</u>	<u>0</u>	<u>217,004</u>	<u>(217,004)</u>	<u>124,691</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(16,742)</u>	<u>1,170</u>	<u>(6,609)</u>	<u>(8,172)</u>	<u>(281,264)</u>	<u>(311,617)</u>
Fund balances - beginning of year	<u>143,124</u>	<u>20,067</u>	<u>330,431</u>	<u>8,172</u>	<u>296,641</u>	<u>798,435</u>
Fund balances - end of year	<u>\$ 126,382</u>	<u>\$ 21,237</u>	<u>\$ 323,822</u>	<u>\$ 0</u>	<u>\$ 15,377</u>	<u>\$ 486,818</u>

INDIVIDUAL FUND SCHEDULES

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2004

With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Local Sources</u>			
Current property taxes	\$ 4,736,931	\$ 4,744,286	\$ 4,596,793
Tuition	32,000	33,990	24,475
Medicaid fee for service	64,592	65,021	132,531
Interest on investments	14,000	14,183	49,747
Rents	2,254	2,254	14,848
Building trades home	122,102	122,102	127,538
Other	104,980	110,475	151,989
	<u>5,076,859</u>	<u>5,092,311</u>	<u>5,097,921</u>
<u>State Sources</u>			
State aid foundation allowance	6,650,061	6,647,179	7,306,931
Transportation	4,170	4,170	0
Special education	437,983	437,984	473,049
Renaissance zone	182,782	182,225	243,759
Michigan Judicial Settlement	29,340	29,340	29,340
Career prep	4,723	43,140	43,215
Gifted and talented	0	1,309	4,477
Drivers education	14,162	14,162	11,816
Preschool program	214,500	221,100	234,300
Literacy achievement program	28,468	23,464	77,030
At risk	463,000	465,001	656,041
Tuition grant	2,910	2,910	2,672
Golden apple award	0	0	9,821
	<u>8,032,107</u>	<u>8,071,992</u>	<u>9,092,459</u>
<u>Federal Sources</u>			
E.C.I.A. Title I	710,000	683,695	628,697
E.C.I.A. Title II Improving Teacher Quality	240,304	223,843	162,985
Comprehensive School Reform	86,044	73,048	68,405
E.C.I.A. Title VI	44,456	35,609	59,154
Medicaid outreach	499	560	1,262
Schools and roads grant funds	52,087	52,087	72,145
School Renovation	666	666	4,081
Special Education	30,000	30,000	0
Other	0	0	3,889
	<u>1,164,056</u>	<u>1,099,508</u>	<u>1,000,618</u>
<u>Operating Transfers</u>			
Food service fund	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>
<u>Other Financing Sources</u>			
Capital lease proceeds	<u>0</u>	<u>0</u>	<u>38,990</u>
Total Revenue and Other Financing Sources	<u>\$ 14,313,022</u>	<u>\$ 14,303,811</u>	<u>\$ 15,269,988</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Instruction</u>			
Basic Programs:			
Elementary:			
Salaries:			
Teachers	\$ 1,729,863	\$ 1,728,778	\$ 1,631,339
Substitutes	44,000	40,434	35,257
Extended day	7,500	7,204	11,565
Employee benefits	686,639	687,520	666,100
Purchased services:			
Other professional services	0	0	2,519
Postage and mailing	519	519	1,752
Printing and binding	1,334	1,298	753
Travel	0	0	206
Repairs and maintenance	18,863	15,405	13,850
Supplies, materials and other:			
Teaching supplies	38,196	34,757	60,278
Textbooks	21,481	21,189	15,876
Office supplies	0	39	0
Other supplies	303	313	10,754
	<u>2,548,698</u>	<u>2,537,456</u>	<u>2,450,249</u>
 Middle School:			
Salaries:			
Teachers	1,027,196	1,027,173	985,413
Substitutes	24,510	22,966	30,188
Early retirement	15,000	15,000	30,000
Employee benefits	418,609	418,592	418,330
Purchased services:			
Postage and mailing	2,980	1,315	2,007
Printing and binding	1,000	2,242	978
Repairs and maintenance	10,200	10,141	8,503
Travel	0	680	104
Professional fees	0	850	167
Supplies, materials and other:			
Teaching supplies	28,994	29,409	18,081
Textbooks	497	346	11,760
Other supplies	0	87	164
	<u>1,528,986</u>	<u>1,528,801</u>	<u>1,505,695</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Instruction</u> (Continued)			
High School:			
Salaries:			
Teachers	\$ 1,349,708	\$ 1,345,772	\$ 1,283,544
Substitutes	22,280	19,365	15,817
Paraprofessional	17,969	17,311	0
Early retirement	3,000	3,000	32,140
Employee benefits	553,099	546,714	541,939
Purchased services:			
Postage and mailing	1,274	1,274	5,989
Printing and binding	100	98	0
Travel	220	68	158
Tuition	21,000	17,170	26,717
Repairs and maintenance	21,742	18,680	18,565
Supplies, materials and other:			
Teaching supplies	27,093	27,651	35,432
Textbooks	1,036	339	1,720
Office supplies	1,000	223	574
	<u>2,019,521</u>	<u>1,997,665</u>	<u>1,962,595</u>
Total basic programs	<u>6,097,205</u>	<u>6,063,922</u>	<u>5,918,539</u>
Added Needs:			
Special Education:			
Salaries:			
Teachers	612,051	612,466	657,248
Paraprofessionals	56,393	55,923	74,143
Substitutes	18,000	17,460	22,303
Employee benefits	279,536	276,599	286,212
Purchased services:			
Tuition	49,700	50,708	26,985
Professional services	0	0	1,222
Travel	1,000	1,369	1,501
Supplies, materials and other:			
Teaching supplies	5,800	3,476	2,016
	<u>1,022,480</u>	<u>1,018,001</u>	<u>1,071,630</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Instruction</u> (Continued)			
Added Needs: (Continued)			
Compensatory Education:			
Salaries:			
Teachers	\$ 471,427	\$ 471,518	\$ 611,191
Paraprofessionals	0	0	93,029
Substitutes	23,500	22,818	8,595
Extended day	15,282	12,556	11,349
Employee benefits	156,826	158,963	255,513
Purchased services:			
Professional services	0	612	0
Supplies, materials and other:			
Teaching supplies	1,355	1,973	44,800
Library	24,842	9,410	14,907
Other supplies	31,459	23,044	1,678
	<u>724,691</u>	<u>700,894</u>	<u>1,041,062</u>
Vocational Education:			
Salaries:			
Teachers	203,816	204,065	149,227
Substitutes	0	840	831
Employee benefits	81,194	81,158	56,342
Purchased services:			
Other professional services	630	315	0
Repairs and maintenance	0	55	0
Tuition	189,830	189,211	206,115
Supplies, materials and other:			
Teaching supplies	3,500	2,001	3,992
Textbooks	1,200	631	1,104
Building trades home	95,102	94,922	103,085
School store - resale	11,200	10,892	9,196
	<u>586,472</u>	<u>584,090</u>	<u>529,892</u>
B-4 Preschool:			
Salaries:			
Teachers	101,358	101,357	121,938
Paraprofessionals	43,376	41,560	45,479
Substitutes	1,000	1,914	1,847
Employee benefits	60,452	59,616	67,637
Purchased services:			
Advertising	0	0	340

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Instruction</u> (Continued)			
B-4 Preschool: (Continued)			
Purchased services: (Continued)			
Travel	\$ 500	\$ 344	\$ 274
Other	5,000	3,890	3,454
Supplies, materials and other:			
Teaching supplies	1,000	1,218	1,403
	<u>212,686</u>	<u>209,899</u>	<u>242,372</u>
 Total added needs	 <u>2,546,329</u>	 <u>2,512,884</u>	 <u>2,884,956</u>
 Adult Education:			
Enrichment	<u>6,033</u>	<u>5,756</u>	<u>5,567</u>
 Total Instruction	 <u>8,649,567</u>	 <u>8,582,562</u>	 <u>8,809,062</u>
 <u>Supporting Services</u>			
Pupil Services:			
Guidance Services:			
Salaries:			
Counseling	246,720	246,869	219,435
Secretaries	24,496	24,496	23,762
Employee benefits	118,255	117,219	103,377
Purchased services:			
Other professional services	0	0	190
Travel	50	0	362
	<u>389,521</u>	<u>388,584</u>	<u>347,126</u>
 Health Services:			
Salaries:			
Nurses	31,626	31,625	30,929
Employee benefits	20,786	20,889	18,524
Purchased services:			
Other professional services	500	0	0
Printing and binding	200	76	0
Travel	200	471	527
Supplies, materials and other:			
Other supplies	1,500	752	1,135
	<u>54,812</u>	<u>53,813</u>	<u>51,115</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Pupil Services: (Continued)			
Psychological Services:			
Purchased services:			
Other professional services	\$ 73,200	\$ 65,936	\$ 76,095
Speech Pathology and Audiology Services:			
Salaries:			
Therapist	70,302	70,300	59,963
Employee benefits	27,662	27,020	26,093
Purchased services:			
Other professional services	6,500	2,200	6,450
Travel	600	397	0
Repairs and maintenance	100	0	0
Supplies, materials and other:			
Teaching supplies	300	215	2,070
	<u>105,464</u>	<u>100,132</u>	<u>94,576</u>
Physical therapist	<u>19,300</u>	<u>19,090</u>	<u>23,077</u>
Social Work Services:			
Salaries:			
Social Work	22,931	22,931	0
Employee benefits	8,683	8,632	0
Purchased services:			
Other professional services	0	0	26,416
Travel	70	73	0
Supplies, materials and other:			
Other supplies	130	129	0
	<u>31,814</u>	<u>31,765</u>	<u>26,416</u>
Visual Aid:			
Purchased services:			
Other professional services	<u>1,000</u>	<u>1,000</u>	<u>0</u>
Total pupil services	<u>675,111</u>	<u>660,320</u>	<u>618,405</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
Instructional Staff:			
Instruction Improvement:			
Salaries:			
Special salary payments	\$ 37,074	\$ 16,494	\$ 3,465
Employee benefits	7,653	3,397	698
Purchased services:			
In-service training	0	0	10,354
Other professional services	16,600	14,183	588
Conference and travel	97,451	50,816	35,226
Printing and binding	171	171	0
Repairs and maintenance	0	0	810
Supplies, materials and other:			
Textbooks	0	0	8,000
Testing supplies	2,200	0	0
Office supplies	1,500	0	118
Other supplies	700	11,939	3,755
Dues and memberships	500	899	1,059
	<u>163,849</u>	<u>97,899</u>	<u>64,073</u>
Computer Assisted Instruction:			
Salaries	47,911	41,659	28,618
Employee benefits	21,133	19,777	13,924
Purchased services:			
Other professional services	26,600	24,340	25,585
Conferences and travel	1,100	1,051	410
Repairs and maintenance	2,590	1,578	1,583
Supplies, materials and other:			
Other supplies	10,000	8,161	4,634
Dues and memberships	6,010	7,381	410
	<u>115,344</u>	<u>103,947</u>	<u>75,164</u>
Educational Media:			
Salaries:			
Media specialists	146,587	147,050	158,060
Substitutes	100	70	0
Employee benefits	56,743	56,673	59,464
Purchased services:			
Media services	0	0	4,483

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Educational Media: (Continued)			
Supplies, materials and other:			
Other professional services	\$ 6,250	\$ 5,624	\$ 5,250
Repairs and maintenance	0	0	0
Other supplies	5,208	5,027	4,399
Dues and memberships	0	110	0
	<u>214,888</u>	<u>214,554</u>	<u>231,656</u>
 Total instructional staff	 <u>494,081</u>	 <u>416,400</u>	 <u>370,893</u>
 General Administration:			
Board of Education:			
Per diems:			
Board of education	5,100	4,260	4,350
Supplies, materials and other:			
Miscellaneous	13,100	10,162	9,754
Purchased services:			
Other professional services	31,650	32,514	10,170
Legal services	52,400	41,626	140,879
Travel	1,300	1,251	655
	<u>103,550</u>	<u>89,813</u>	<u>165,808</u>
 Executive Administration:			
Salaries:			
Superintendent	89,848	88,958	88,958
Secretaries	47,649	47,314	71,363
Student worker	2,086	206	0
Special pay	0	0	4,640
Employee benefits	63,512	63,630	68,877
Purchased services:			
Travel	4,234	2,908	2,700
Advertising	7,600	5,323	7,299
Printing and binding	800	788	265
Repairs and maintenance	5,700	4,018	4,549
Other professional services	15,100	9,447	4,850

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Executive Administration: (Continued)			
Supplies, materials and other:			
Dues and memberships	\$ 2,500	\$ 1,177	\$ 1,503
Office supplies	8,950	8,550	3,958
Postage	1,000	996	1,327
Miscellaneous	300	2,563	673
	<u>249,279</u>	<u>235,878</u>	<u>260,962</u>
Total general administration	<u>352,829</u>	<u>325,691</u>	<u>426,770</u>
School Administration:			
Office of the Principal:			
Salaries:			
Principals	348,168	348,147	357,182
Secretaries	185,901	179,068	189,894
Paraprofessionals	84,143	72,506	57,902
Substitutes	9,000	5,377	4,190
Special pay	0	230	200
Early retirement	15,000	12,978	0
Employee benefits	304,148	292,019	283,494
Purchased services:			
Other professional services	430	430	0
Conference	4,980	4,385	2,366
Printing and binding	0	0	39
Supplies, materials and other:			
Office supplies	15,778	11,025	12,174
Other supplies	2,173	2,438	995
Postage	6,801	7,480	2,210
Dues and memberships	4,891	4,469	3,601
Repairs and maintenance	200	198	489
	<u>981,613</u>	<u>940,750</u>	<u>914,736</u>
Director of Instruction:			
Salaries:			
Program direction	71,127	71,126	101,626
Instructional staff supervision	33,388	33,081	30,503
Substitutes	0	331	90
Secretaries	63,067	63,151	63,973
Employee benefits	81,334	80,540	81,781
Purchased services:			
Advertising	300	284	162
Travel	2,400	2,272	464

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Director of Instruction: (Continued)			
Purchased services: (Continued)			
Postage and mailing	\$ 577	\$ 561	\$ 1,018
Repairs and maintenance	2,000	2,520	1,108
Other professional services	0	0	65
Supplies, materials and other:			
Office supplies	1,640	1,326	1,222
Other supplies	9,827	3,935	2,529
Dues and memberships	1,120	329	716
	<u>266,780</u>	<u>259,456</u>	<u>285,257</u>
Other administration:			
Salaries	0	0	7,225
Employee benefits	0	0	2,085
Purchased services:			
Workshops and travel	168	410	929
Supplies, materials and other:			
Other supplies	3,332	2,922	2,380
Dues and memberships	0	0	250
	<u>3,500</u>	<u>3,332</u>	<u>12,869</u>
Total school administration	<u>1,251,893</u>	<u>1,203,538</u>	<u>1,212,862</u>
Business Services:			
Board of review changes	22,900	22,730	17,939
Purchased services:			
Workers compensation	71,000	70,089	68,085
Liability insurance	0	0	104
Building insurance	12,872	12,872	5,881
Unemployment Insurance	8,000	0	2,033
Other Insurance	1,000	870	825
Tax anticipation loan interest	22,750	22,174	46,271
Capital lease payments	9,841	9,840	4,920
Other professional/technical services	35,458	30,500	23,060
Supplies, materials and other:			
Supplies	3,200	1,671	172
Dues and memberships	13,500	11,436	10,772
Total business services	<u>200,521</u>	<u>182,182</u>	<u>180,062</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Fiscal Services:			
Salaries:			
Payroll and accounting	\$ 85,314	\$ 85,314	\$ 79,708
Secretary	0	0	68
Employee benefits	35,910	35,902	32,452
Purchased services:			
Travel expense	500	130	469
Other professional/technical services	1,600	510	2,230
Supplies, materials and other:			
Miscellaneous	3,500	2,090	7,390
Dues and memberships	5,000	4,538	4,747
Total fiscal services	131,824	128,484	127,064
Central Services:			
Operation of Plant:			
Salaries:			
Program director	45,195	45,195	42,283
Custodians	321,458	302,277	336,298
Maintenance	72,134	72,146	100,581
Substitute custodian	35,000	35,711	27,971
Overtime pay	12,000	12,340	10,835
Special pay	100	396	6,621
Employee benefits	230,410	225,347	242,103
Purchased services:			
Other professional services	900	844	80
Building insurance	68,700	68,617	45,187
Other insurance	7,500	7,398	8,305
Travel	1,000	638	1,183
Telephone	79,700	79,795	54,789
Postage	8,923	7,810	6,678
Heating	239,724	219,827	201,791
Electricity	183,530	178,224	175,766
Water and sewage	37,600	35,369	43,067
Contracted service	20,100	19,366	18,446
Maintenance - building	48,980	45,426	40,824
Repairs and maintenance	17,850	16,739	9,752
Equipment rental	1,000	300	109

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	2004		2003
	Budget	Actual	Actual
<u>Supporting Services</u> (Continued)			
Central Services: (Continued)			
Operation of Plant: (Continued)			
Supplies, materials and other:			
Miscellaneous supplies	\$ 86,600	\$ 83,006	\$ 101,611
Dues and memberships	2,200	2,689	1,574
	<u>1,520,604</u>	<u>1,459,460</u>	<u>1,475,854</u>
Transportation:			
Salaries:			
Supervisors	0	1,596	0
Bus drivers	389,160	383,464	402,300
Extra run	15,217	14,198	15,537
Secretary	32,607	33,783	32,254
Mechanics	71,823	71,620	70,879
Overtime pay	12,000	7,978	10,577
Special pay	0	160	165
Early retirement	0	0	6,900
Employee benefits	200,421	200,158	193,437
Purchased services:			
Other professional services	9,600	8,094	13,982
Travel	4,700	4,046	7,737
Mileage for students	2,600	2,446	2,627
Postage and mailing	100	20	37
Vehicle insurance	28,684	28,684	22,324
Printing and binding	600	434	935
Repairs and maintenance	8,969	7,972	13,489
Radio maintenance	500	493	0
Telephone	0	0	221
Supplies, materials and other:			
Gas, oil and grease	68,000	64,568	71,089
Tires, tubes and batteries	10,000	8,342	5,392
Vehicle repair parts	49,800	45,688	66,169
Other supplies	12,700	12,107	18,305
Bus payments	133,028	133,028	133,028
Dues and memberships	200	20	120
	<u>1,050,709</u>	<u>1,028,899</u>	<u>1,087,504</u>
Total central services	<u>2,571,313</u>	<u>2,488,359</u>	<u>2,563,358</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	<u>2004</u>		<u>2003</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
<u>Supporting Services (Continued)</u>			
Other:			
Salaries:			
Teachers	\$ 0	\$ 93	\$ 0
Employee benefits	0	82	0
Purchased services:			
Other professional services	48,300	48,300	48,586
Travel	2,046	1,097	1,017
Supplies, materials and other:			
Miscellaneous supplies	0	0	505
Dues and memberships	0	0	2,030
Total other	<u>50,346</u>	<u>49,572</u>	<u>52,138</u>
Total Supporting Services	<u>5,727,918</u>	<u>5,454,546</u>	<u>5,551,552</u>
<u>Community Services</u>			
Community recreation	20,678	13,181	24,039
Preschool	2,413	2,398	1,598
Other:			
Miscellaneous	65,338	40,623	38,397
Total Community Services	<u>88,429</u>	<u>56,202</u>	<u>64,034</u>
<u>Capital Outlay</u>			
Instruction:			
Basic programs:			
Elementary	8,495	13,871	11,571
Junior High	7,995	7,995	0
High School	0	0	19,495
Compensatory education	0	0	42,211
Instructional staff:			
Computer assisted instruction	0	0	17,838
School administration:			
Executive administration	0	0	19,495
Central services:			
Operation of plant	15,000	0	62,000
Total Capital Outlay	<u>31,490</u>	<u>21,866</u>	<u>172,610</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

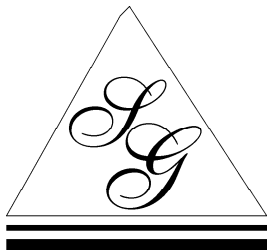
GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	<u>2004</u>		<u>2003</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
<u>Transfers</u>			
Athletic fund	\$ 168,000	\$ 161,972	\$ 260,752
Food service fund	794	794	847
<u>Other Financing Uses</u>			
Total transfers	<u>168,794</u>	<u>162,766</u>	<u>261,599</u>
Total Expenditures and Other Financing Uses	<u>\$ 14,666,198</u>	<u>\$ 14,277,942</u>	<u>\$ 14,858,857</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

ALL SPECIAL REVENUE FUNDS
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended June 30, 2004

	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>			
Local sources:			
Lunch sales	\$ 223,363	\$ 237,030	\$ 13,667
Gate receipts	30,000	38,999	8,999
Interest on investments	0	665	665
Other	5,000	16,429	11,429
State sources	61,659	59,176	(2,483)
Federal sources	478,394	470,713	(7,681)
Total revenue	<u>798,416</u>	<u>823,012</u>	<u>24,596</u>
 <u>Expenditures</u>			
Current:			
Food services	771,225	746,986	24,239
Athletics	<u>215,736</u>	<u>216,289</u>	<u>(553)</u>
Total expenditures	<u>986,961</u>	<u>963,275</u>	<u>23,686</u>
 Excess of revenue over (under) expenditures	<u>(188,545)</u>	<u>(140,263)</u>	<u>48,282</u>
 <u>Other Financing Sources (Uses)</u>			
Sale of fixed assets	1,250	1,925	675
Operating transfers in	168,794	162,766	(6,028)
Operating transfers out	<u>(40,000)</u>	<u>(40,000)</u>	<u>0</u>
Total other financing sources (uses)	<u>130,044</u>	<u>124,691</u>	<u>(5,353)</u>
 Excess of revenue and other sources over (under) expenditures and other uses	<u>(58,501)</u>	<u>(15,572)</u>	<u>42,929</u>
 Fund balances - beginning of year	<u>163,191</u>	<u>163,191</u>	<u>0</u>
 Fund balances - end of year	<u>\$ 104,690</u>	<u>\$ 147,619</u>	<u>\$ 42,929</u>



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July 30, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools, Iosco and Alcona Counties, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Oscoda Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Oscoda Area Schools, in a separate letter dated July 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oscoda Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted two matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Oscoda Area Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Separation of Duties over Cash Receipting

The present system of internal accounting controls does not provide for separation of duties in the performance of the cash receipting functions. We noted that the accountant is primarily responsible for cash receipting, bank deposits, general ledger posting and bank reconciliations for the General and Capital Projects bank accounts. In addition, the accountant is an authorized check signer on the Capital Projects bank account. However, two board members generally sign all capital projects fund checks. We recommend someone other than the accountant receive the bank statements directly from the bank and review them for reasonableness. Once received, we recommend the accountant reconcile the bank account, and return the reconciliation to the first individual for review. This will provide a segregation of duties whereby the work of one individual is checked by another individual.

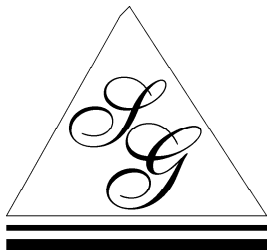
School Lunch Fund Student Eligibility

We reviewed five application verification files for free and reduced lunch eligibility. We noted that two of the five files reviewed had changes in status that were not updated on the reporting system until 2 ½ months and 3 months, respectively, subsequent to the change date. Federal guidelines require status changes be made within three days if benefits are increased, or ten days if the benefits are decreased. Both exceptions showed a decrease in benefits.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the separation of duties over cash receipting matter described above to be a material weakness.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
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Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

July 30, 2004

Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

Dear Board Members:

We have audited the financial statements of the Oscoda Area Schools for the year ended June 30, 2004, and have issued our report thereon dated July 30, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Oscoda Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Oscoda Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Oscoda Area Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Oscoda Area Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Oscoda Area Schools' compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Oscoda Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Oscoda Area Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Oscoda Area Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments proposed, whether recorded or unrecorded by Oscoda Area Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require that consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Oscoda Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, several matters came to our attention upon which we would like to comment and offer the following recommendations.

Separation of Duties over Cash Receipting

The present system of internal accounting controls does not provide for separation of duties in the performance of the cash receipting functions. We noted that the accountant is primarily responsible for cash receipting, bank deposits, general ledger posting and bank reconciliations for the General and Capital Projects bank accounts. In addition, the accountant is an authorized check signer on the Capital Projects bank account. However, two board members generally sign all capital projects fund checks. We recommend someone other than the accountant receive the bank statements directly from the bank and review them for reasonableness. Once received, we recommend the accountant reconcile the bank account, and return the reconciliation to the first individual for review. This will provide a segregation of duties whereby the work of one individual is checked by another individual.

School Lunch Fund Student Eligibility

We reviewed five application verification files for free and reduced lunch eligibility. We noted that two of the five files reviewed had changes in status that were not updated on the reporting system until 2 ½ months and 3 months, respectively, subsequent to the change date. Federal guidelines require status changes be made within three days if benefits are increased, or ten days if the benefits are decreased. Both exceptions showed a decrease in benefits.

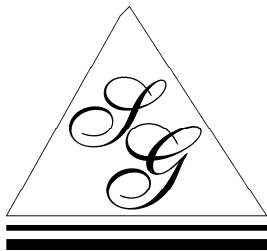
Budget Control

We noted that the School District's Special Revenue Funds included expenditures in some functions that exceeded appropriated amounts. We recommend that the Board of Education continue to amend the budgets for all funds periodically as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the School District.

This information is intended solely for the use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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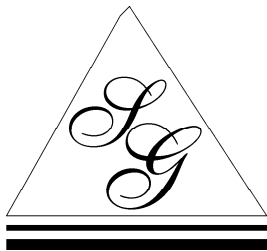
Herman A Bertuleit, CPA

OSCODA AREA SCHOOLS
IOSCO AND ALCONA COUNTIES, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2004

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July 30, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools, Iosco and Alcona Counties, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Oscoda Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Oscoda Area Schools, in a separate letter dated July 30, 2004.

Internal Control Over Financial Reporting

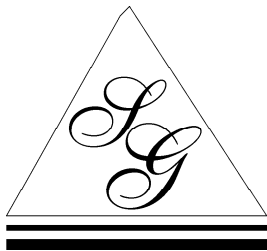
In planning and performing our audit, we considered the Oscoda Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted two matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Oscoda Area Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1 and 04-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 04-1 to be a material weakness.

Board of Education
Oscoda Area Schools
July 30, 2004
Page Two

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grainh & Co., P.C.



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July 30, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

Compliance

We have audited the compliance of Oscoda Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Oscoda Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Oscoda Area Schools' management. Our responsibility is to express an opinion on Oscoda Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Oscoda Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Oscoda Area Schools' compliance with those requirements.

In our opinion, Oscoda Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Oscoda Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Oscoda Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Oscoda Area Schools ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated July 30, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Oscoda Area School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of Oscoda Area Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2004

There were no findings or questioned costs for the year ended June 30, 2003.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of Oscoda Area Schools.
- (2) Two reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of Oscoda Area Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) One reportable condition relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Oscoda Area Schools expresses an unqualified opinion.
- (6) The auditors' report disclosed one audit finding relative to the major federal award programs for Oscoda Area Schools.
- (7) The programs tested as major programs included: Child Nutrition Cluster School Breakfast program CFDA #10.553 and Child Nutrition Cluster School Lunch program CFDA #10.555
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Oscoda Area Schools qualified as a low-risk auditee.

Findings - Financial Statements Audit

04-1

Internal Controls

Separation of Duties over Cash Receipting

The present system of internal accounting controls does not provide for separation of duties in the performance of the cash receipting functions. We noted that the accountant is primarily responsible for cash receipting, bank deposits, general ledger posting and bank reconciliations for the General and Capital Projects bank accounts. In addition, the accountant is an authorized check signer on the Capital Projects bank account. However, two board members generally sign all capital projects fund checks. We recommend someone other than the accountant receive the bank statements directly from the bank and review them for reasonableness. Once received, we recommend the accountant reconcile the bank account, and return the reconciliation to the first individual for review. This will provide a segregation of duties whereby the work of one individual is checked by another individual.

Management Response
and Corrective Action Plan:

Procedures were implemented immediately in August 2004 to incorporate a second individual who will receive the bank statements unopened from the bank, review them for reasonableness, and review the final bank reconciliation prepared by the accountant.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

Findings - Financial Statements Audit (Continued)

04-2

School Lunch Fund
Reporting

Student Eligibility Reporting

We reviewed five application verification files for free and reduced lunch eligibility. We noted that two of the five files reviewed had changes in status that were not updated on the reporting system until 2 ½ months and 3 months, respectively, subsequent to the change date. Federal guidelines require status changes be made within three days if benefits are increased, or ten days if the benefits are decreased. Both exceptions showed a decrease in benefits.

Management Response
and Corrective Action Plan:

The two students incorrectly reported were a result of school lunch personnel inadvertently not saving the changes to the correct computer. The claim forms will be amended if possible to include the correct student status and charge under the School Lunch program.

Findings and Questioned Costs - Major Federal Award Programs Audit

04-3

See condition cited above in 04-2.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2003	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2004
<u>U.S. Department of Agriculture</u>							
Child Nutrition Cluster:							
Passed through Michigan Department of Education:							
National School Breakfast Program:							
031970	10.553	\$ 106,694	\$ 96,879	\$ 0	\$ 9,815	\$ 9,815	\$ 0
041970		<u>93,805</u>	<u>0</u>	<u>0</u>	<u>93,805</u>	<u>93,805</u>	<u>0</u>
		<u>200,499</u>	<u>96,879</u>	<u>0</u>	<u>103,620</u>	<u>103,620</u>	<u>0</u>
National School Lunch Program:							
Sec. 4 - All Lunches:	10.555						
031950		44,875	39,388	0	5,487	5,487	0
041950		<u>39,576</u>	<u>0</u>	<u>0</u>	<u>39,576</u>	<u>39,576</u>	<u>0</u>
Sec. 11 - Free and Reduced:							
031960		268,863	236,577	0	32,286	32,286	0
041960		<u>227,715</u>	<u>0</u>	<u>0</u>	<u>227,715</u>	<u>227,715</u>	<u>0</u>
Snack Program:							
031980		2,291	2,034	0	257	257	0
041980		<u>3,953</u>	<u>0</u>	<u>0</u>	<u>3,953</u>	<u>3,953</u>	<u>0</u>
		<u>587,273</u>	<u>277,999</u>	<u>0</u>	<u>309,274</u>	<u>309,274</u>	<u>0</u>
Total Child Nutrition Cluster		<u>787,772</u>	<u>374,878</u>	<u>0</u>	<u>412,894</u>	<u>412,894</u>	<u>0</u>
Passed through Michigan Department of Education:							
Food Distribution for National Lunch or Breakfast Programs:							
Entitlement Commodities	10.550	51,921	0	0	51,921	51,921	0
Bonus Commodities		<u>5,898</u>	<u>0</u>	<u>0</u>	<u>5,898</u>	<u>5,898</u>	<u>0</u>
		<u>57,819</u>	<u>0</u>	<u>0</u>	<u>57,819</u>	<u>57,819</u>	<u>0</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2003	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2004
<u>U.S. Department of Agriculture</u> (Continued)							
Passed through Alcona County: Schools and Roads Grant Funds	10.665	\$ 27,970	\$ 0	\$ 0	\$ 27,970	\$ 27,970	\$ 0
Passed through Iosco County: Schools and Roads Grant Funds		15,243	0	0	15,243	15,243	0
		43,213	0	0	43,213	43,213	0
Total U.S. Department of Agriculture		888,804	374,878	0	513,926	513,926	0
<u>U.S. Department of Education</u>							
Passed through Michigan Department of Education: Title I - Grants to Local Educational Agencies	84.010	46,441	46,441	36,964	0	36,964	0
2002-2003 Regular 021530 0203		588,006	572,377	63,896	15,629	79,525	0
2002-2003 Regular ESEA 031530 0203		150,711	0	0	150,711	123,219	27,492
2003-2004 Regular 031530 0304		674,022	0	0	517,354	436,354	81,000
2003-2004 Regular ESEA 041530 0304		1,459,180	618,818	100,860	683,694	676,062	108,492
Passed through Iosco Regional Educational Service Agency: PL 94-142 IDEA Flow Through	84.027	30,000	0	0	30,000	30,000	0
Passed through Michigan Department of Education: Title V - LEA Allocation:	84.298	30,310	25,786	6,832	4,524	11,356	0
030250 0203		29,858	0	0	21,011	18,059	2,952
040250 0304		60,168	25,786	6,832	25,535	29,415	2,952

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2003	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2004
<u>U.S. Department of Education</u> (Continued)							
Passed through Michigan Department of Education: Title II:	84.318						
Ed Tech - Formula Grants 034290 0203		\$ 21,314	\$ 18,247	\$ 10,706	\$ 3,067	\$ 13,773	\$ 0
Ed Tech - Formula Grants 044290 0304		16,389	0	0	14,596	9,906	4,690
Ed Tech - Formula Grants 044280/-2		6,750	0	0	6,286	0	6,286
		<u>44,453</u>	<u>18,247</u>	<u>10,706</u>	<u>23,949</u>	<u>23,679</u>	<u>10,976</u>
Passed through Michigan Department of Education: Comprehensive School Reform Demos 021870 0203	84.332	80,585	68,405	2,676	12,180	14,856	0
Comprehensive School Reform Title I Grants 031870 0304		86,044	0	0	60,867	60,446	421
		<u>166,629</u>	<u>68,405</u>	<u>2,676</u>	<u>73,047</u>	<u>75,302</u>	<u>421</u>
Passed through Michigan Department of Education: School Renovation, IDEA and Tech Program:	84.352A						
Renovation Grant 022410 1		250,000	250,000	138,970	0	138,970	0
Renovation Grant 022410 2B		165,000	162,892	95,266	2,108	97,374	0
Renovation Grant 022410 2BX		35,000	0	0	35,000	35,000	0
		<u>450,000</u>	<u>412,892</u>	<u>234,236</u>	<u>37,108</u>	<u>271,344</u>	<u>0</u>
Passed through Michigan Department of Education: Title VI, Part B:	84.358B						
Rural and Low-Income Grant 030660 0203		<u>43,442</u>	<u>33,368</u>	<u>33,368</u>	<u>10,074</u>	<u>43,442</u>	<u>0</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grantor or Pass Through Grantor <u>Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2003</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2004</u>
<u>U.S. Department of Education</u> (Continued)							
Passed through Michigan Department of Education:							
Improving Teacher Quality:	84.367						
Title IIA, Teacher Quality Formula 030520 0203		\$ 186,006	\$ 144,738	\$ 19,969	\$ 0	\$ 19,969	\$ 0
Title IIA, Teacher Quality Formula 030520 0304		41,268	0	0	28,430	9,215	19,215
Title IIA, Teacher Quality Formula 040520 0304		179,580	0	0	171,464	140,939	30,525
		<u>406,854</u>	<u>144,738</u>	<u>19,969</u>	<u>199,894</u>	<u>170,123</u>	<u>49,740</u>
Total U.S. Department of Education		<u>2,660,726</u>	<u>1,322,254</u>	<u>408,647</u>	<u>1,083,301</u>	<u>1,319,367</u>	<u>172,581</u>
<u>U.S. Department of Health and Human Services</u>							
Passed through Iosco Regional Educational Service Agency as Fiscal Agent:							
Medical Assistance Program Title XIX:	93.778						
Administrative Claims 2002-2003		1,262	1,262	102	0	102	0
Administrative Claims 2003-2004		560	0	0	560	560	0
		<u>1,822</u>	<u>1,262</u>	<u>102</u>	<u>560</u>	<u>662</u>	<u>0</u>
Total Federal Awards		<u>\$ 3,551,352</u>	<u>\$ 1,698,394</u>	<u>\$ 408,749</u>	<u>\$ 1,597,787</u>	<u>\$ 1,833,955</u>	<u>\$ 172,581</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
5. Expenditures include spoilage or pilferage.
6. Reconciliation to financial statements:

General Fund	\$ 1,099,508
Special Revenue Funds:	
Food Service Fund	470,713
Capital Project Funds:	
2001 Capital Project Fund	36,442
Federal revenue from oil and gas royalties, included in General Fund total above, not subject to Single Audit reporting requirements	<u>(8,876)</u>
	<u>\$ 1,597,787</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS
For the Year Ended June 30, 2004

<u>Federal Program Title/Subrecipient</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Amount</u>	<u>Due to Subrecipient July 1, 2003</u>	<u>Prior Year Subrecipient Federal Expenditures</u>	<u>Current Year Transfer to Subrecipient</u>	<u>Current Year Subrecipient Federal Expenditures</u>	<u>Due to Subrecipient June 30, 2004</u>
Comprehensive School Reform Title I Grants: Academy for Education	031870 0304	84.332	<u>\$ 86,044</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 48,300</u>	<u>\$ 48,300</u>	<u>\$ 0</u>

FORM **SF-SAC**
(5-2004)U.S. DEPT. OF COMM.—Econ. and Stat. Admin.—U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132**GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)****1. Fiscal period ending date for this submission**

Month	Day	Year
06	30	2004

Fiscal Period End Dates Must Be In 2004, 2005, or 2006

2. Type of Circular A-133 audit1 ☒ Single audit 2 ☐ Program-specific audit**3. Audit period covered**1 ☒ Annual 2 ☐ Biennial 3 ☐ Other — Months**4. FEDERAL GOVERNMENT USE ONLY**Date received by
Federal clearinghouse**5. Auditee Identification Numbers****a. Primary Employer Identification Number (EIN)**

3 8 — 6 0 2 3 7 0 7

b. Are multiple EINs covered in this report? 1 ☐ Yes 2 ☒ No**c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.****d. Data Universal Numbering System (DUNS) Number** — — **e. Are multiple DUNS covered in this report?** 1 ☐ Yes 2 ☒ No**f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.****6. AUDITEE INFORMATION****a. Auditee name**

OSCODA AREA SCHOOLS

b. Auditee address (Number and street)

3550 RIVER ROAD

City

OSCODA

State

MI

ZIP + 4 Code

4 8 7 5 0 —

c. Auditee contact

Name

CHRISTINE BEARDSLEY

Title

SUPERINTENDENT

d. Auditee contact telephone

(989) 739 — 2033

e. Auditee contact FAX

(989) 739 — 2325

f. Auditee contact E-mail**g. AUDITEE CERTIFICATION STATEMENT** — This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.Signature of certifying official Date
Month Day Year
/ /

Printed Name of certifying official

Printed Title of certifying official

7. AUDITOR INFORMATION (To be completed by auditor)**a. Auditor name**

STEPHENSON, GRACIK & CO., P.C.

b. Auditor address (Number and street)

325 NEWMAN ST; PO BOX 592

City

EAST TAWAS

State

MI

ZIP + 4 Code

4 8 7 3 0 —

c. Auditor contact

Name

DONALD W. BRANNAN

Title

PARTNER

d. Auditor contact telephone

(989) 362 — 4491

e. Auditor contact FAX

(989) 362 — 8351

f. Auditor contact E-mail**9. AUDITOR STATEMENT** — The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.Signature of auditor Date
Month Day Year
/ /

FINANCIAL STATEMENTS (To be completed by auditor)**1. Type of audit report**

Mark either:

1 ☒ Unqualified opinion **OR**any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion**2. Is a "going concern" explanatory paragraph included in the audit report?**1 ☐ Yes 2 ☒ No**3. Is a reportable condition disclosed?**1 ☒ Yes 2 ☐ No – SKIP to Item 5**4. Is any reportable condition reported as a material weakness?**1 ☒ Yes 2 ☐ No**5. Is a material noncompliance disclosed?**1 ☐ Yes 2 ☒ No**FEDERAL PROGRAMS (To be completed by auditor)****1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)**1 ☐ Yes 2 ☒ No**2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))**

\$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530)1 ☒ Yes 2 ☐ No**4. Is a reportable condition disclosed for any major program? (§ .510(a)(1))**1 ☒ Yes 2 ☐ No –SKIP to Item 6**5. Is any reportable condition reported as a material weakness? (§ .510(a)(1))**1 ☐ Yes 2 ☒ No**6. Are any known questioned costs reported? (§ .510(a)(3) or (4))**1 ☐ Yes 2 ☒ No**7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b))**1 ☐ Yes 2 ☒ No**8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)**98 ☐ U.S. Agency for International Development83 ☐ Federal Emergency Management Agency43 ☐ National Aeronautics and Space Administration96 ☐ Social Security Administration10 ☐ Agriculture39 ☐ General Services Administration89 ☐ National Archives and Records Administration19 ☐ U.S. Department of State23 ☐ Appalachian Regional Commission93 ☐ Health and Human Services05 ☐ National Endowment for the Arts20 ☐ Transportation11 ☐ Commerce97 ☐ Homeland Security06 ☐ National Endowment for the Humanities21 ☐ Treasury94 ☐ Corporation for National and Community Service03 ☐ Institute of Museum and Library Services47 ☐ National Science Foundation82 ☐ United States Information Agency12 ☐ Defense15 ☐ Interior07 ☐ Office of National Drug Control Policy64 ☐ Veterans Affairs84 ☐ Education16 ☐ Justice09 ☐ Legal Services Corporation00 ☒ None81 ☐ Energy17 ☐ Labor59 ☐ Small Business Administration☐ Other – Specify:66 ☐ Environmental Protection Agency

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives ☒
- and, if not marked above, the Federal cognizant agency ☐

Count total number of boxes marked above and submit this number of reporting packages

1

PART III **FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR					10. AUDIT FINDINGS				
Federal Agency Prefix ¹	CFDA Number Extension ²	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)	If yes, type of audit report ³ (h)	Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
1 0	.553	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER - SCHOOL BREAKFAST	\$ 103,620 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	L	04-3
1 0	.555	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER - SCHOOL LUNCH	\$ 309,274 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	L	04-3
1 0	.550	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FOOD DISTRIBUTION FOR NATIONAL LUNCH OR BREAKFAST PROGRAMS	\$ 57,819 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	.665	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SCHOOLS AND ROADS GRANTS FUNDS	\$ 43,213 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.010	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE I	\$ 683,694 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.027	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PL 94-142 IDEA FLOW THROUGH	\$ 30,000 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V LEA ALLOCATION	\$ 25,535 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.318	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE II	\$ 23,949 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.332	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMPREHENSIVE SCHOOL REFORM	\$ 73,047 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.352A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SCHOOL RENOVATION, IDEA AND TECH PROGRAM	\$ 37,108 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
TOTAL FEDERAL AWARDS EXPENDED				\$ 1,597,787 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (**U** = Unqualified opinion, **Q** = Qualified opinion, **A** = Adverse opinion, **D** = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
⁵ N/A for NONE

E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds

I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance

L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

PART III**FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR					10. AUDIT FINDINGS				
Federal Agency Prefix ¹ (a)	CFDA Number Extension ² (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
						Major program (g)	If yes, type of audit report ³ (h)		
8 4	.358B	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	RURAL AND LOW-INCOME GRANT	\$ 10,074.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE IIA - IMPROVING TEACHER QUALITY	\$ 199,894.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3	.778	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	MEDICAL ASSISTANCE PROGRAM TITLE XIX	\$ 560.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
TOTAL FEDERAL AWARDS EXPENDED				\$ 1,597,787.00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
⁵ N/A for NONE

E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds

I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance

L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

PART I

[illegible]

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.